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Report to those charged with governance (ISA 260) 2011/12

Telford & Wrekin Council

September 2012

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one
Introduction

This report summarises:

- **the key issues identified during our audit of Telford & Wrekin Council’s (‘the Authority‘s) financial statements for the year ended 31 March 2012; and**
- **our assessment of the Authority’s arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2011/12*, presented to you on 26 June 2012, which summarised our planning and interim audit work.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2011/12* issued in June 2012.

This report focuses on the final two stages: substantive procedures and completion.

Our on site final accounts visits took place between 2 July and 12 August 2012. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have now also completed our work in respect of the 2011/12 VFM conclusion. This involved concluding our work to address the specific matters identified in our *Interim Audit Report 2011/12*.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises our headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2012. We also expect to report that the wording of your Annual Governance Statement accords with our understanding of the Authority.
Audit adjustments	Our audit identified a total of five audit adjustments with a total value of £17.9million. The impact of these adjustments is to: ■ Decrease the surplus on provision of services for the year by £3.4million; and ■ Decrease the net worth of the Authority as at 31 March 2012 by £3.4million. None of the adjustments identified impacted upon the balance on the general fund account as at 31 March 2012. We have included a full list of audit adjustments at Appendix 3. All of these were adjusted by the Authority In addition to these audit adjustments, we identified a number of corrections required in relation to casting and presentational issues. Again, all of these corrections have been made by the Authority. We have raised one recommendation in relation to the matters highlighted above, which relates to ensuring the correct accounting treatment is applied when schools obtain academy status. In addition, we have reiterated one of the recommendations raised in our *ISA 260 Report 2010/11* in relation to the draft financial statements being reviewed by the Audit Committee. We are aware that the draft financial statements were provided to the Audit Committee on 4 July 2012. This did not, however, provide opportunity for review prior to the audit commencing.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific accounting risk areas. The Authority has addressed the issues appropriately. The main critical accounting matters arising during the year related to fixed asset accounting, specifically Heritage Assets, Component Accounting, and Capital Accounting Thresholds. We identified no audit adjustments in relation to any of these issues.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. We particularly noted the benefit of the Authority implementing a SharePoint site for the collating and sharing of working papers. Officers dealt efficiently with audit queries and the audit process has generally been completed within the planned timescales. Due to issues we identified in relation to the draft Cash Flow Statement both the Authority and ourselves were required to undertake further work. Further additional work was also required in order to confirm a number of changes made to the Financial Statements during the audit as a result of an error identified by the Authority. The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements. The only outstanding recommendation related to the draft financial statements being reviewed by the Audit Committee prior to the commencement of the audit.

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter from the Authority. This will be provided by the Authority at the Audit Committee meeting on 25 September 2012 as required. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.
VFM risk areas	We have considered the specific VFM risks we set out in our *Interim Audit Report 2011/12*. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Proposed opinion and audit differences

Our audit identified a total of five audit adjustments.

The impact of these adjustments is to:

- **Decrease the surplus on the provision of services for the year by £3.4million; and**
- **Decrease the net worth of the Authority as at 31 March 2012 by £3.4million.**

None of the adjustments identified impacted upon the balance on the general fund account as at 31 March 2012.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2012.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified a total of five significant audit differences, which we set out in Appendix 3. We confirm that these have been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2012.

There is no net impact on the General Fund balance as at 31 March 2012 as a result of these audit adjustments. Both the net worth of the Authority and the surplus on provision of services were decreased by £3.4m. This is the result of an adjustment required to correctly account for the disposal of a school which achieved academy status during the year.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- Revenue grant income with a value of £2.0m had been incorrectly disclosed as other income rather than as grant income; and
- Government grants received in advance amounting to £3.3m disclosed as government creditors rather than being included within receipts in advance.

There are no uncorrected audit differences arising from our audit.

Movements on the General Fund 2011/12

£m	Pre-audit*	Post-audit	*Ref (App.3)*
Surplus on the provision of services	9.241	5.848	*2,3,4*
Adjustments between accounting basis & funding basis under Regulations	(11.380)	(7.987)	*3*
Transfers from earmarked reserves	2.562	2.562	
Increase in General Fund	**0.423**	**0.423**	

Balance Sheet as at 31 March 2012

£m	Pre-audit*	Post-audit	*Ref (App.3)*
Property, plant and equipment	364.051	360.658	*3*
Other long term assets	78.163	78.163	
Current assets	83.549	83.549	
Current liabilities	(109.722)	(109.702)	*1,2,5*
Long term liabilities	(326.967)	(326.987)	*2*
Net worth	**89.074**	**85.681**	
General Fund	(3,686)	(3,686)	
Other reserves	(85.388)	(81.995)	*3*
Total reserves	**(89.074)**	**(85.681)**	

* Pre-audit figures take account of errors identified and corrected by the Authority during the audit.

Proposed opinion and audit differences (continued)

Our audit identified a number of casting and presentational differences which have been corrected by the Authority.

The wording of your Annual Governance Statement accords with our understanding of the Authority.

In addition, we identified a number of casting errors and presentational adjustments required to ensure that the accounts are consistent and fully compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 ('the Code')*. We confirm that the Authority has addressed these issues.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *External Audit Plan 2011/12*, presented to you in January 2012, we identified the key risks affecting the Authority's 2011/12 financial statements.

In our *Interim Audit Report 2011/12* we commented on the Authority's progress in addressing these key risks. We highlighted that whilst the Authority had made significant progress in relation to the specific risks, there were a number of actions still to be undertaken as part of the accounts production process.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

We have reviewed the way in which the Authority has addressed each of the key audit risks identified. As a result of this we identified that the Authority has appropriately addressed all of these risks.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	As at December 2011, the Authority was forecasting that it would deliver its 2011/12 budget in overall terms. This included a savings programme totalling £13.2m. The Authority estimated that another £19.1m in savings will need to be achieved during 2012/13 rising to a total of around £33m by 2014/15 as part of the General Fund strategy to address the reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability, whilst not affecting standards of service delivery. If there were any related liabilities at year end, e.g. through severance packages, these would need to be accounted for in the 2011/12 financial statements as appropriate.	The Authority continues to progress its savings plans and reports to the Cabinet on progress made as part of its regular reporting processes. No significant delays in achieving savings have been identified to date through these monitoring processes. The Authority's budgeted outturn for 2011/12 was £129.5m. The actual outturn achieved was £127.6m. This favourable variance of £1.8m allowed the Authority to increase the General Fund balance by £0.4m as opposed to an estimated £1.4m use of reserves. We reviewed the level of provisions recognised in the 2011/12 financial statements and confirmed that they complied with the accounting standards. We also confirmed that these represented the real position of liabilities as at 31 March 2012 and represented the progress made in implementing savings plans up to that date.

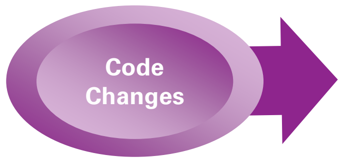
Critical accounting matters (continued)

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
Component Accounting	We reported in our 2010/11 *Annual Audit Letter* that the Authority had implemented a policy in relation to the IFRS requirements for component accounting. This policy was based upon the application of a series of thresholds relating to the asset's value and useful economic life. The policy was designed to ensure that componentisation was applied so as to account for all material asset components. The application of this policy to additions and revalued assets in 2010/11 resulted in no componentisation being undertaken in relation to the 2010/11 Financial Statements.	The Authority has prepared the 2011/12 financial statements using the same componentisation policy as that applied for 2010/11. This resulted in a limited number of assets requiring componentisation. This has increased the depreciation charge for the year and decreased the value of Property, Plant and Equipment as at 31 March 2012. We reviewed the application of the componentisation policy during 2011/12 and identified no issues.
Capital Accounting Thresholds	In our 2010/11 *Annual Audit Letter* we reported that the Authority had historically operated two deminimis thresholds in relation to Capital Accounting resulting in capital expenditure between £1k and £50k being capitalized but then immediately impaired to nil net book value. The Authority proposed a revised policy which will be implemented in relation to the 2011/12 Financial Statements. This policy made use of a single threshold of £10k in all except a limited number of exceptions such as where the aggregate value of a purchase programme exceeds the deminimis levels. The previous policy resulted in £9m of asset additions being recognised in the 2010/11 Financial Statements which were then fully impaired as a result of the policy rather than as the result of a specific impairment issue.	The application of the revised policy resulted in significant changes to the financial statements for 2009/10 and 2010/11. The revised policy has resulted in decreased impairment charges, increased depreciation charges and an increase in the overall value of Property, Plant and Equipment. We have reviewed the amendments made to the financial statements as a result of the change in policy and have confirmed that the accounting entries have been processed appropriately. As this represented a change in accounting policy, the Authority was required to make accounting adjustments to the prior year balances. Therefore, we have also confirmed that the disclosure requirements arising from the prior period adjustment have been met.

Critical accounting matters (continued)

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
	The 2011/12 *Code* includes a number of accounting changes, including a new requirement to carry ‘heritage assets’ at valuation. Heritage Assets include historical buildings, museum and gallery collections and works of art. The 2011/12 *Code* also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 *Code*. In addition, 2011/12 sees the move from preparing financial statements under the Best Value Accounting Code of Practice (BVACOP) to the Service Reporting Code of Practice (SeRCOP). The Authority needed to review and appropriately address these changes in its 2011/12 financial statements.	As part of its accounts production process the Authority undertook an exercise designed to identify all assets which would fall within the definition of Heritage Assets. Having completed this exercise it was determined that it was not cost effective to obtain valuations for such assets. This was based upon estimates of costs provided by independent valuers which indicated that the total cost would have been £165k-£330k plus VAT and expenses. The above approach and decision is permitted by the Code in instances where an Authority can demonstrate that the cost of obtaining valuations exceeds the benefits that would be provided to a user of the financial statements. As the Heritage Assets identified by the Authority had no historic cost, having been inherited from predecessor authorities, and have no known resale value, they are being held at nil net book value. As the Authority had, in previous years, opted to increase the level of disclosure beyond that required by the BVACOP the differences between that format and the SeRCOP was significantly reduced. We identified no issues in relation to the adoption of the SeRCOP in the 2011/12 financial statements.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries. However, additional work was required to be undertaken by us as a result of errors identified by the Authority and corrections required in relation to the Cash Flow Statement.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its financial reporting process through enhancing the level of review and quality checks undertaken by senior officers. There is scope to improve this further by ensuring that the Audit Committee are also provided with the opportunity to review the draft financial statements. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2012. Subsequent to this the Authority identified an error in relation to capital expenditure and receipts. This required a number of adjustments to both the Balance Sheet and the Comprehensive Income & Expenditure Statements. These corrections were made by the Authority during the audit.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in March 2012, and discussed with the Finance Team Leader, set out our working paper requirements for the audit. The quality of working papers provided had improved from prior year, but there remain areas where further improvements could be made.
Response to audit queries	Officers resolved audit queries in a reasonable time. The Authority implemented a SharePoint site during 2011/12 which was used to share working papers and track audit queries. The Authority also allocated additional resources to the management of audit queries. We acknowledge that both of these measures resulted in improvements when compared with prior years.

The audit process took longer than originally anticipated due to:

- additional work being required to resolve errors identified in relation to the Cash Flow Statement; and
- the agreements of adjustments made to the financial statements during the audit arising from errors identified by the Authority.

We will discuss the impact of this additional work has upon the audit fee with the Chief Financial Officer.

Accounts production and audit process (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Prior year recommendations

In our *Interim Audit Report 2011/12* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2010/11.*

The Authority has now implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements. Exceptions to this relate to:

- the implementation of Single Status which is an ongoing process scheduled to be completed in April 2014 with the balance sheet as at 31 March 2012 including an accrual in relation to the estimated liabilities to be incurred as a result of this implementation; and
- the review of the draft financial statements was enhanced in comparison to that completed in 2010/11, but the Audit Committee was not provided with the draft financial statements prior to the audit. The provision of the draft financial statements took place on 4 July 2012.

Appendix 2 provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Telford & Wrekin Council for the year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Telford & Wrekin Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2011/12 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following page include further details on our specific VFM work based upon specific matters we identified through our planning process.

Specific VFM matters

We have now concluded our specific work in relation to the specific matters we set out in our *Interim Audit Report 2011/12*.

In our *Interim Audit Report 2011/12* we identified the significant matters for our VFM conclusion, and set out our preliminary assessment of these with reference to the relevant work by the Authority, the Audit Commission, other inspectorates and review agencies.

We concluded that we needed to carry out additional work for some of these risks and this work is now complete.

The outcome of this work is set out below.

Key VFM Matter	Preliminary assessment	Key findings of our additional work
	In February 2012 we met with the Executive Directors in order to discuss the Authority's MTFP processes and the progress made in relation to the delivery of the Authority's savings plans. As part of this discussion we offered a constructive challenge of the processes in place. This meeting included reviewing the achievability of the Authority's savings plans and measures taken where slippages had occurred against these plans. No significant weaknesses were identified as a result of this meeting. Based upon the outcomes of this meeting we continued to monitor the progress made in delivering the required savings packages throughout the Authority. Specifically we reviewed the processes in place to monitor this delivery and assessed whether timely and appropriate action is taken where slippage occurs. We reviewed the Authority's restructuring programme and assessed the robustness of proposals for delivering savings necessary to meet funding reductions. We also reviewed the assessed impact on service delivery standards. We arranged to meet key officers and Members to discuss the above issues during May 2012.	During May 2012 we met with key members of the Executive Team and Members in order to discuss the ongoing management of the Authority's financial standing. Members have also taken greater levels of interest in financial matters. This has resulted in a greater level of understanding and comfort in relation to the Authority's budgets. The Authority has continued to make progress in relation to its savings plans and managed to achieve an underspend against budget for 2011/12. This has enabled to the Authority to contribute to useable reserves for use in 2012/13 to support the budget strategy. As at July 2012, the Authority was forecasting that the outturn would be in line with budget. This included as predicted £2.6m use of budgeted contingency. The Authority's restructuring programme has continued and is on schedule. There continues to be a robust process in relation to challenging the assumptions made in relation to these savings plans. Through the adoption of the "Co-operative Council" approach, the Authority believes it has achieved back office savings of 33%. The Authority is now looking at changing how individual services operate so as to ensure that they achieve the greatest levels of efficiency possible.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	Our audit of the financial statements identified an audit adjustment in relation to the accounting entries arising from a school acquiring academy status during the financial year. The Code requires that the school should be treated as a fixed asset disposal with nil proceeds. As a result, a loss on disposal should be recognised in such circumstances. During 2011/12, one school previously controlled by the Authority acquired academy status. No disposal had been recognised in relation to the school buildings. As a result of this the value of Property, Plant and Equipment was overstated by £3.4m. A similar issue was identified as part of the audit of the 2010/11 financial statements where an academy school had been impaired rather than disposed of. This was corrected in the final version of the 2010/11 financial statements. The Authority should also implement controls designed to identify such transactions and ensure that they are accounted for correctly. The Authority should ensure that appropriate training is provided to ensure that the requirements of the Code are fully understood.	Appropriate controls and processes will be implemented to ensure the appropriate accounting treatment for schools that become academies. These processes will be communicated to appropriate staff. ▪ Ken Clarke – CFO ▪ 31/12/2012

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	5
Implemented in year or superseded	3
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
1	2	Due to the Council-wide restructure programme , the on-going job evaluations and job specification finalisation the Authority decided to delay the implementation of Single Status until April 2014. Nevertheless, the Authority must now ensure it implements Single Status by April 2014 with appropriate monitoring of milestones through the year to ensure this is achieved. In addition, as implementation progresses, the Authority should ensure that it uses the most up to date information and relevant case law precedents, whilst taking into account any other changing circumstances so that it more accurately reflects the likely financial cost within its Medium Term Financial Strategy. The Authority needs to ensure that further slippage in implementing Single Status is avoided where possible.	The Authority has a project plan and resources to meet the current target date of April 2014 and will monitor and take action in respect to any financial implications that may arise. The equal pay risk will be assessed during the pay modelling part of the implementation process. ▪ Jonathan Eatough – Assistant Director (Law, Democracy & Public Protection) ▪ Angie Astley – Assistant Director (Customers & People) ▪ On-going	**Remains Outstanding – In Progress** The Authority has continued to make progress towards the implementation of Single Status. The projected implementation date remains April 2014, although there is a possibility that implementation could be achieved earlier dependent upon the outcome of current ongoing negotiations with unions. The Authority has allocated an Executive Lead to the process and has continued to ensure appropriate involvement of unions and legal advisors.

Appendix 2: Follow up of prior year recommendations (continued)

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
2	2	As a result of our audit work we identified a large number of presentation issues, casting errors and instances where notes did not agree back to the primary statements. These issues are seen as being indicative on an insufficient level of independent review being undertaken in relation to the draft financial statements. The Authority should ensure that a robust review of the draft financial statements is undertaken so as to ensure that such issues are identified and addressed.	The financial statements were reviewed within the resources and time available to complete the draft Statement of Accounts so that they were available for the beginning of the audit. 2010/11 was a particularly challenging year with the transition to IFRS which was a significant change. Preparation of the accounts for 2010/11 coincided with the recruitment phase of the Finance restructure process so the additional resource allocated to corporate finance to support accounts preparation was not in post when the accounts were prepared. However, this post is now occupied and will be made available to assist with reviewing the draft accounts prior to audit for 2011/12. ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements	**Remains Outstanding – Partly Implemented** During the accounts production process for 2011/12 there was a significant increase in the level of review undertaken by the Finance Manager and the Chief Finance Officer. The Authority did not manage to provide the draft Financial Statements to the Audit Committee for review prior to the commencement of the audit. The provision of the draft financial statements took place on 4 July 2012.

Appendix 2: Follow up of prior year recommendations (continued)

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
3	❶	Our audit work highlighted that a substantial portion of the audit differences identified arose due to the changes arising following the move from UK GAAP to IFRS as implemented by the Code. The Authority should undertake a thorough review of the Code and IFRS is undertaken on an annual basis so as to ensure that any changes are identified and actioned in the preparation of the financial statements. In addition, in such key areas, the technical expertise within the Authority may require further improvement and the Authority should identify any knowledge and skill gaps within the team, and implement an action plan which includes provision of further training where required.	As part of the audit fee it had been agreed that KPMG would provide 15 consultancy days specifically to advise and assist with the transition to IFRS. Resources available to complete the Statement of Accounts are limited and the Authority was relying on this technical input from KPMG to review working papers and disclosure notes and provide detailed guidance. This was planned to be a separate piece of work prior to the commencement of the audit and a number of documents had been sent to KPMG for review/comment. Whilst 8 days support was provided and was very helpful, 7 of the planned consultancy days were not provided ahead of the audit. Consequently, this meant that there were more findings during the audit. As previously mentioned, the restructure process has allocated additional resource which should assist accounts preparation for 2011/12 which will also be subject to much less change in accounting requirements than 2010/11 which has been an exceptional year. ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements	**Implemented** Additional resources were allocated to the accounts production process during 2011/12. This helped to ensure that more time could be dedicated to reviewing the Code and the financial statements. We can confirm that there was a significant decrease in the number of issues identified which arose as a result of failing to understand changes to the Code.

Appendix 2: Follow up of prior year recommendations (continued)

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
4	2	Currently the responsibility for the preparation of the financial statements and supporting notes resides primarily with the Finance Manager. Due to the pressures involved with this, and the other responsibilities the Finance Manager has with the Authority, it will be necessary to ensure that additional support is offered. The Authority should ensure that additional staffing is allocated to the preparation of the financial statements. Such staffing should also be available to offer support through the audit process.	The new Finance Structure includes a part-time accountant providing support to the Finance Team Leader who prepares the accounts. In addition, reports will be developed in the new Financial Management System to streamline the production of information. It should be noted however that following the restructure process, the Finance team overall is 20% smaller which impacts on the capacity at year end. ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements	**Implemented** Additional resources were allocated to the accounts production process during 2011/12. This was the first year of account production using the Agresso system. This presented a number of challenges to the finance team as it was necessary to develop new reports to provide the information needed for the financial statements. It is anticipated that this process should become more streamlined in future years as these reports will already exist.

Appendix 2: Follow up of prior year recommendations (continued)

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
5	2	Whist our discussions with Senior officers, the Leader and two Cabinet Members confirmed that financial monitoring is carried out, we consider that the unprecedented financial pressures would warrant more frequent formal monitoring of the Authority's finances than the current quarterly reporting to Members. The Authority should review if its current arrangements and formats for financial reporting remain appropriate in the context of the current financial pressures. This should consider specifically if : ▪ more frequency formal reporting is needed; ▪ a greater level of detail on the savings plans would be beneficial, such as an assessment of the risk attached to the delivery of specific proposals; and ▪ if the focus should be on gross rather than net budgets.	Although financial monitoring is only taken to Cabinet quarterly, lead Members and SMT receive regular updates in between. Finance Teams work closely with Heads of Service and their management team providing financial advice and guidance throughout the year – providing financial comments/implications to all reports going forward to Cabinet, working on re-structure and service review rationales, supporting the identification and delivery of savings and continually reviewing and updating the Authority's rolling budget model/strategy. Savings proposals and the associated risks are reviewed in detail as part of the budget planning process. ▪ Ken Clarke - Head of Finance ▪ Ongoing	**Implemented** Through our VFM work we have met with members of the Executive Team and the SMT. As a result of this we have confirmed that financial monitoring is seen as an area of significance and that it is being monitored throughout the year.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.. We confirm that these have all been adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Telford & Wrekin Council's financial statements for the year ended 31 March 2012. We confirm that these have all been adjusted in the finalised financial statements.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1				DR Other Payables £3.338m CR Government Grants Received in Advance (£3.338m)		In the draft financial statements Government Grants Received in Advance were disclosed within Government Creditors rather than as receipts in advance. A reclassification was required in order to accurately reflect the position of the Authority and also to be consistent with the prior year treatment.
2	DR Interest Payable £0.050m CR Other Expenditure (£0.050m)			DR Other Payables £0.020m CR Finance Lease Liabilities (£0.020m)		Interest in relation to Finance Leases of £50k has been included within Central Services Provided to the Public rather than being separately disclosed as Interest Payable. In addition, the split of short and long term creditors in relation to Finance Leases has been miscalculated.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.. We confirm that these have all been adjusted.

No.	Impact: Income and Expenditure Statement	Impact: Movement in Reserves Statement	Impact: Assets	Impact: Liabilities	Impact: Reserves	Basis of audit difference
3	DR Profit/Loss on Disposal of non-current assets £3.440m CR Depreciation (£0.047m)	CR Other Adjustments between Accounting and Funding Basis (£3.393m)	CR Property, Plant & Equipment (£3.393m)		DR Capital Adjustment Account £3.151m DR Revaluation Reserve £0.242m	Newport Girls High School became an academy during 2011/12. The asset was still held in the Fixed Asset Register with no disposal recognised during the year. As a result of this, depreciation had been charged during the year and required reversal. Previous revaluation gains also had to be transferred to the Capital Adjustment Account.
4	DR Other Income £2.008m CR Specific Government Grants (£2.008m)					Two income streams had been incorrectly split as part other income and part grant income. Both should have been classified entirely as grant income. The grants involved were the Early Intervention Grant and the Standards Fund.
5				DR Other Receipts in Advance £0.631m CR Other Payables (£0.631m)		The Authority has, on a yearly basis, recognised an accrual in relation to Single Status liabilities likely to arise. We identified that one element of this accrual had been incorrectly accounted for as a receipt in advance.
	Dr £3.393m	**CR (£3.393m)**	**CR (£3.393m)**	**Nil**	**Dr £3.393m**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Telford & Wrekin Council for the financial year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Telford & Wrekin Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Telford & Wrekin Council ("the Authority") for the year ended 31 March 2012, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority's expenditure and income for the year then ended; and
   - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

   The financial statements have been prepared on a going concern basis.
2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.

Information provided

5. The Authority has provided you with:
   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

8. The Authority has disclosed to you all information in relation to:
   a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that:
       - are statutory, contractual or implicit in the employer's actions;
       - arise in the UK and the Republic of Ireland or overseas;
       - are funded or unfunded; and
       - are approved or unapproved,

       have been identified and properly accounted for; and

    b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 25 September 2012.

Yours faithfully,

Chair of the Audit Committee, Chief Financial Officer

KPMG

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